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Message Text

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ACTION EUR-12

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C O N F I D E N T I A L OECD PARIS 03865

ROME FOR TEMPLEMAN

E.O. 11652: GDS
TAGS: EFIN, OECD
SUBJECT: WORKING PARTY 3 DISCUSSION OF ITALIAN SITUATION

REF: OECD PARIS 313L

1. DOCUMENT CPE/WP3(76)4, ISSUED BY OECD SECRETARIAT FEBRUARY 3, IS ENTITLED "NOTES ON THE ECONOMIC SITUATION IN ITALY". THIS DOCUMENT HAS BEEN PREPARED FOR DISCUSSION ON ITALIAN SITUATION WHICH EXPECTED TO TAKE PLACE AT WORKING PARTY 3 MEETING FEBRUARY 16 - 17. DOCUMENT CONTAINS FOLLOWING SUGGESTED POINTS FOR DISCUSSION:

BEGIN TEXT

15. THE PRESENT WEAKNESS OF THE LIRA SEEMS CLEARLY NOT THE RESULT OF DEMAND-PULL. ARGUABLY, IT WAS NOT SOLELY OCCASIONED BY THE FALL OF THE GOVERNMENT. APPREHENSION CONCERNING THE EXISTING VOLUME OF FOREIGN INDEBTEDNESS MAY HAVE PLAYED A ROLE. SO, TOO, MAY THE FACT THAT COST INFLATION REMAINED FASTER THAN IN MOST OTHER COUNTRIES,
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AND THE EXPECTATION THAT SOCIAL AND POLITICAL PRESSURES

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WOULD ENGENDER FURTHER DOMESTIC EXPANSIONARY MEASURES, BOTH OF WHICH COULD HAVE SERVED PROGRESSIVELY TO EXERT PRESSURE ON THE EXCHANGE RATE. POSSIBLE POINTS FOR DISCUSSION INCLUDE:

(A) WOULD IMMEDIATE MEASURES TO TIGHTEN MONETARY AND BUDGETARY POLICIES REDUCE THE SPECULATIVE PRESSURES ON THE CURRENCY AND HELP TO RESTORE CONFIDENCE?

(B) IS THERE SCOPE FOR ACTION TO EASE THE FINANCIAL POSITION OF ENTERPRISES AND SUPPORT INVESTMENT- WITHOUT ENDANGERING NEW SOURCES OF INFLATION? IN THE PAST, THE PARTIAL BUDGETISATION OF EMPLOYERS' SOCIAL SECURITY HAS BEEN USED TO THIS END. THIS WOULD TEND TO INCREASE THE PUBLIC SECTOR DEFICIT WHICH IS ALREADY HELD TO BE EXCESSIVE. WOULD SOME SUCH MEASURES, LINKED TO FIRM COMMITMENTS TO REDUCE THE PUBLIC DEFICIT AS OON AS PRIVATE DEMAND STARTS TO REVIVE, BE CONSIDERED FEASIBLE AND DESIRABLE?

(C) WHAT ARE THE PROSPECTS FOR THE PRESENT WAGE NEGOTIATIONS, AND IS THERE ACTION THAT THE GOVERNMENT COULD TAKE TO ENSURE THAT WAGE INCREASES ARE KEPT MODEST IN THE INTEREST OF PRESERVING EMPLOYMENT?

(D) DURING THE INTERVAL BEFORE ANY NEW MEASURES TO RESTORE CONFIDENCE BECAME EFFECTIVE, WOULD INTERNATIONAL ACTION DESIGNED TO SUPPORT THE LIRA BE CREDIBLE TO THE MARKETS?

END TEXT

2. ALL FOUR DOCUMENTS MENTIONED IN AGENDA (REFTEL) HAVE BEEN HAND-CARRIED TO WASHINGTON.
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